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GOBIERNO DE ESPAÑA

MINISTERIO DE ECONOMÍA Y EMPRESA

Recent Developments in the Spanish Economy, Policy & Funding

September 2019

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Highlights

- The Spanish economy will maintain a robust growth path: after growing at a rate of 2.6% in 2018, GDP is expected to expand by 2.2% in 2019

- National deleveraging is progressing, by combining growth with a current account surplus
  - Ambitious public debt reduction: Debt-to-GDP ratio in 2018 of 97.1%, down from 98.1%, and expected to close 2019 at 95.8%
  - Impressive private deleveraging: non-financial private sector debt of 152.4%, below the Euro Area average and down from 217.8% in 2010

- Strong pro-European sentiment underpins adjustment resolve:
  - Commitment to the Stability and Growth Pact: General Government deficit in 2018 of 2.5%, below the 3% EU reference value, and expected to be reduced in 2019 to 2%
  - Structural reforms: Macroprudential Authority, Agenda for Change under implementation
  - Measures to address unemployment, intergenerational equity, climate change and inequality (economic, territorial and gender) essential for long-term sustainability

- Gradual widening, deepening, improvement of Spain’s investor base

Macroeconomic scenario 2019-2022

Macroeconomic scenario (YoY growth rates in percent)	2016	2017	2018	2019	Q1	Q2	2020	2021	2022
Private consumption expenditure	2.9	2.5	2.3	1.9	1.5	1.7	1.6	1.5	1.4
General Government consumption expenditure	1.0	1.9	2.1	1.9	2.0	1.9	1.5	1.4	1.3
Gross Fixed Capital Formation	2.9	4.8	5.3	4.0	4.7	1.2	3.5	3.3	3.1
National Demand (Contribution to GDP Growth)	**2.4**	**2.9**	**2.9**	**2.3**	**2.2**	--	**1.9**	**1.8**	**1.8**
Exports of goods and services	5.2	5.2	2.3	2.7	0.0	1.7	2.8	2.7	2.6
Imports of goods and services	2.9	5.6	3.5	3.1	-0.5	-0.3	2.9	2.8	2.7
External demand (Contribution to GDP Growth)	**0.8**	**0.1**	**-0.3**	**-0.1**	**0.2**	--	**0.0**	**0.0**	**0.0**
Gross Domestic Product	**3.2**	**3.0**	**2.6**	**2.2**	**2.4**	**2.3**	**1.9**	**1.8**	**1.8**

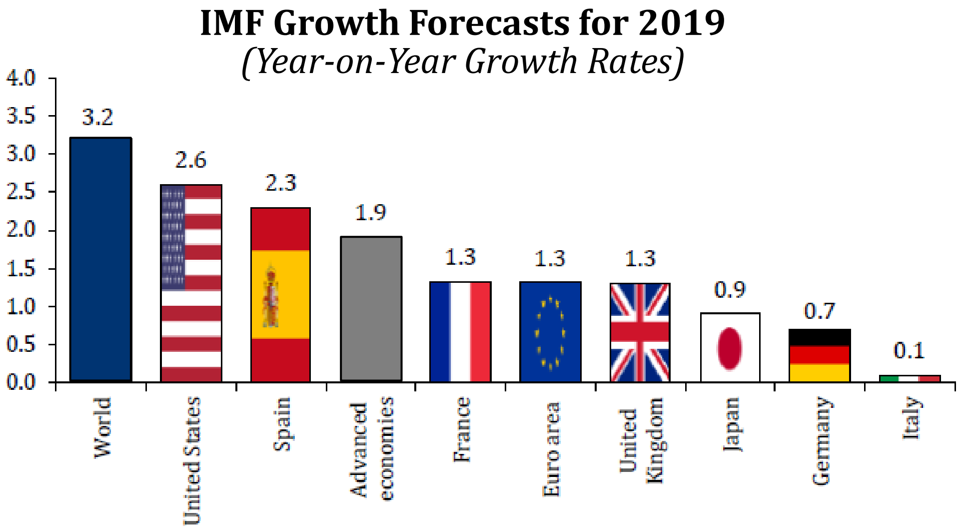
Other variables	2016	2017	2018	2019	Q1	Q2	2020	2021	2022
Unemployment rate (in % of Active Population)	19.6	17.2	15.3	13.8	14.7	14.0	12.3	11.0	9.9
Full-time Equiv. Employment (YoY Growth)	3.0	2.9	2.5	2.1	2.8	2.5	1.8	1.7	1.6
Net lending(+)/borrowing(-) with RoW (% of GDP)	2.4	2.2	1.5	1.2	1.2	--	1.1	1.1	1.0
Private Consumption deflator (YoY Growth)	0.0	1.6	1.6	1.2	1.2	1.3	1.4	1.5	1.5
Headline Balance General Gov't (in % of GDP)*	-4.5	-3.1	-2.5	-2.0	-2.43	--	-1.1	-0.4	0.0
USD/€ exchange rate	1.1	1.1	1.2	1.13	1.14	1.12	1.13	1.13	1.13
Euro Area GDP growth (YoY growth)	1.9	2.6	1.9	1.2	1.2	1.1	1.6	1.5	1.4
Oil prices (Brent, USD/barrel)	43.3	54.3	70.9	68.9	63.1	69.7	67.6	65.0	65.0

** Including Financial Sector One-Offs*

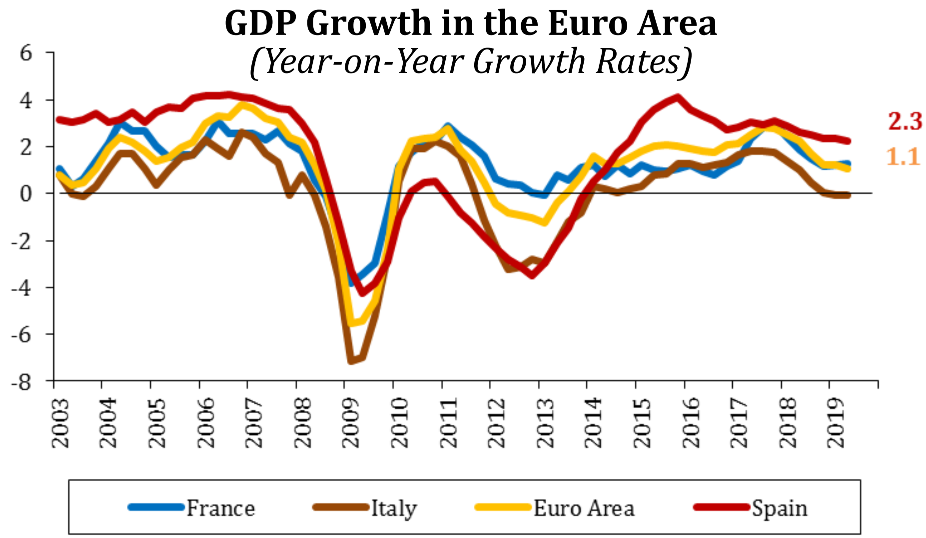
Sources: Ministerio de Economía y Empresa and Ministerio de Hacienda.

Shaded areas are realisations. In white, forecasts contained in the 2019 Stability Programme released in April.

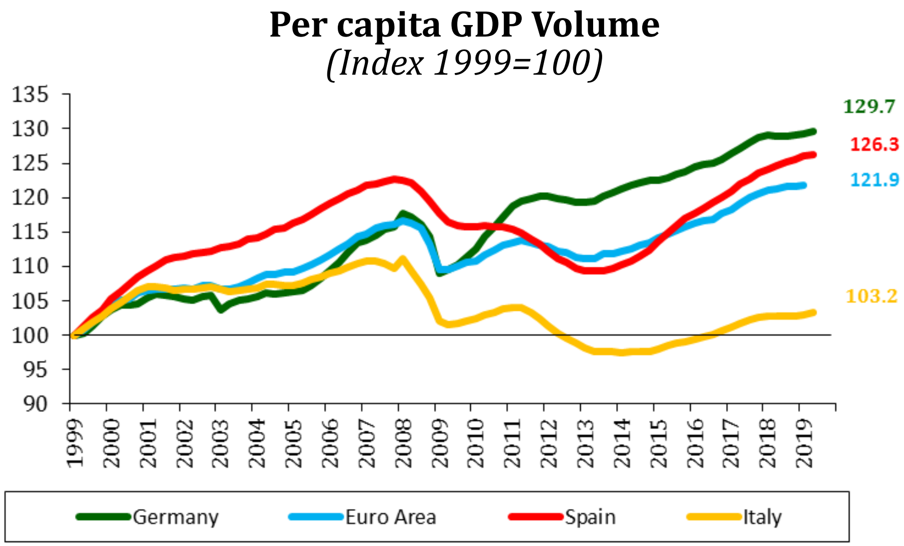
Economic sentiment



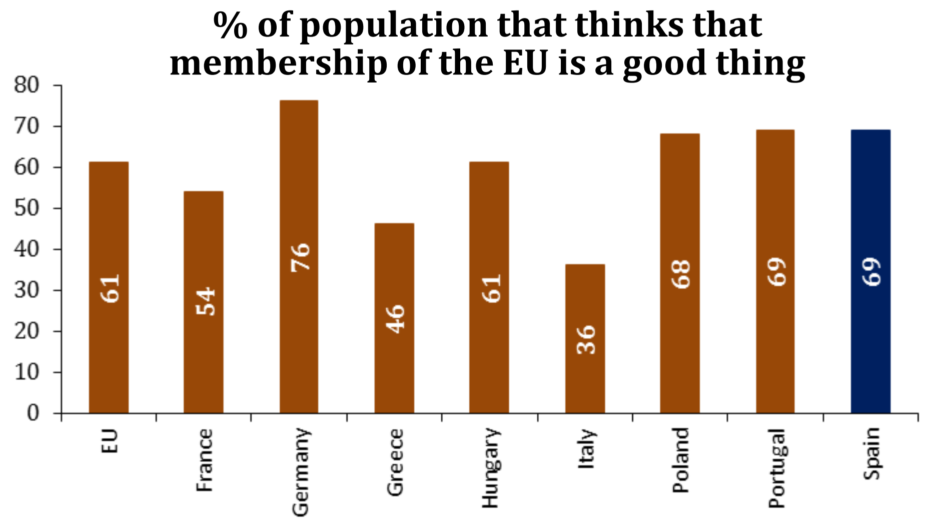
Source: IMF. WEO July 2019.



Source: Instituto Nacional de Estadística.



Source: EUROSTAT.

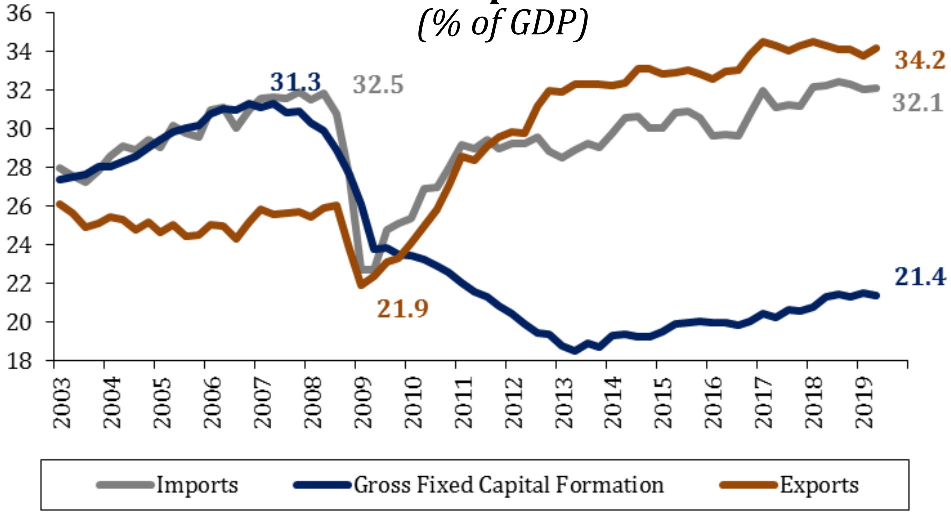


Source: EUROSTAT, March 2019.

Spain's growth pattern

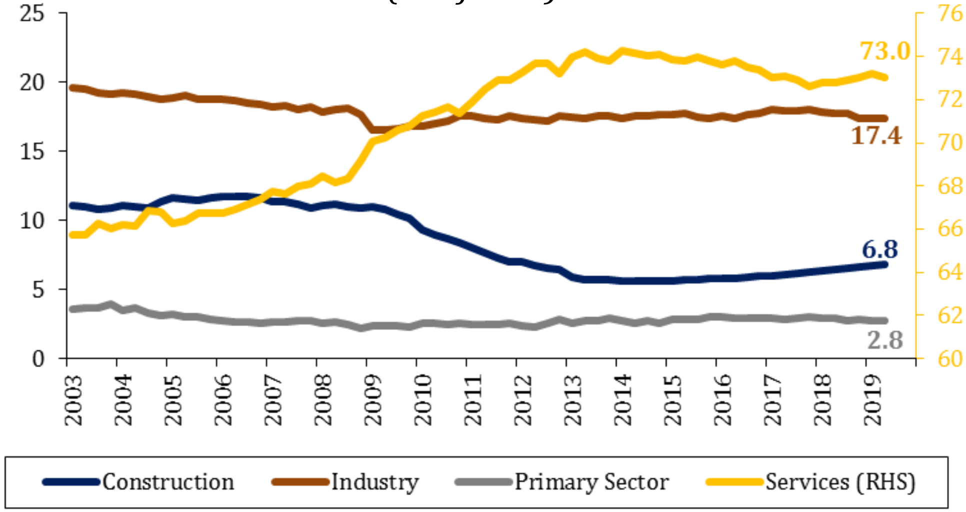
- Current account surplus and net lending capacity vis-à-vis rest of the world
- Subdued inflation and strong job creation
- Rebalancing of weight of construction sector and higher weight of services sector
- Strong investment growth converging to Euro Area average

Exports and Imports of Goods and Services & Gross Fixed Capital Formation
(% of GDP)



Source: Instituto Nacional de Estadística.

Gross Value Added
(% of GDP)

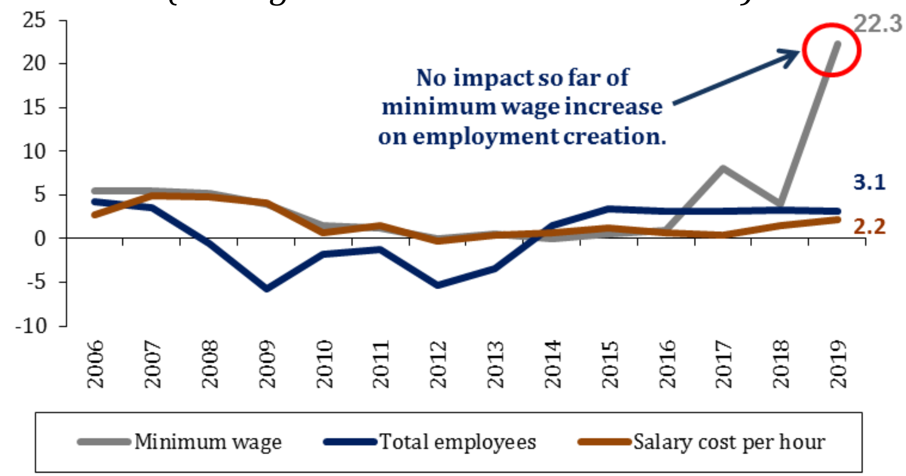


Source: Instituto Nacional de Estadística.

A recovery intensive in labour creation

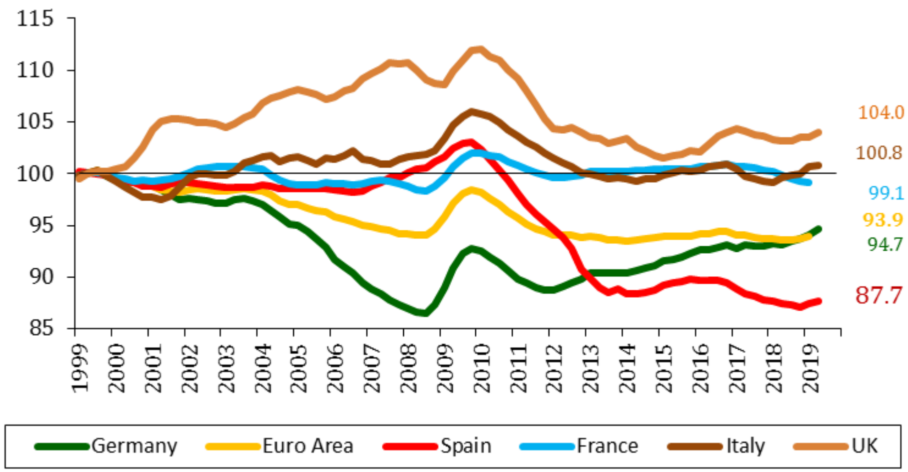
- Unemployment down to 13.9%, from a maximum of 26.3% in 2013
- Over 2.5 million jobs created since 2014, equivalent to more than 25% of the total employment generated in the Euro Area
- Falling unemployment fuels internal demand
- Measures to increase job quality in order to fight inequality, foster stability & human capital

Minimum Wage, Total Employees & Salary Cost
(Average Year-on-Year Growth Rates)



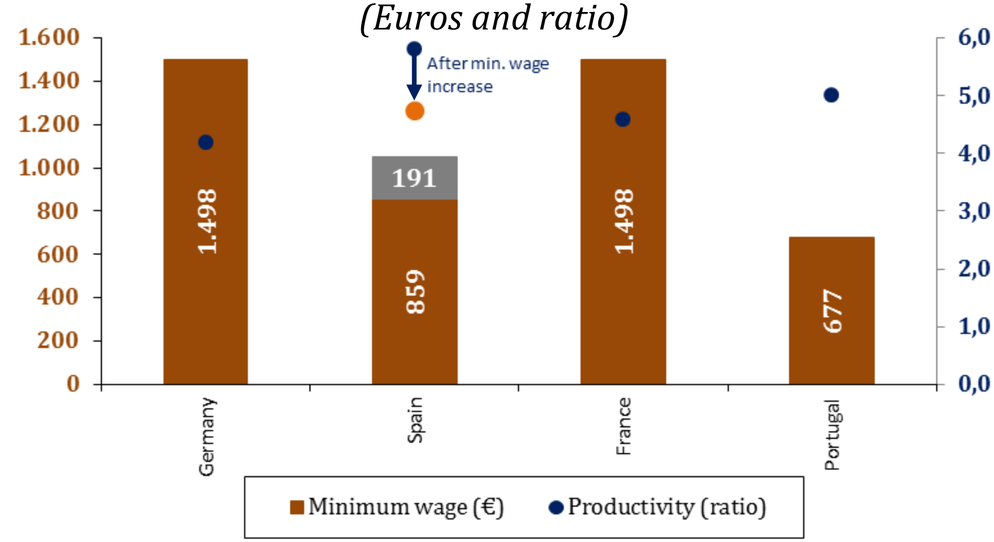
Source: Instituto Nacional de Estadística.

Real Unit Labour Costs
(Index 1999=100, Smoothed)



Source: EUROSTAT.

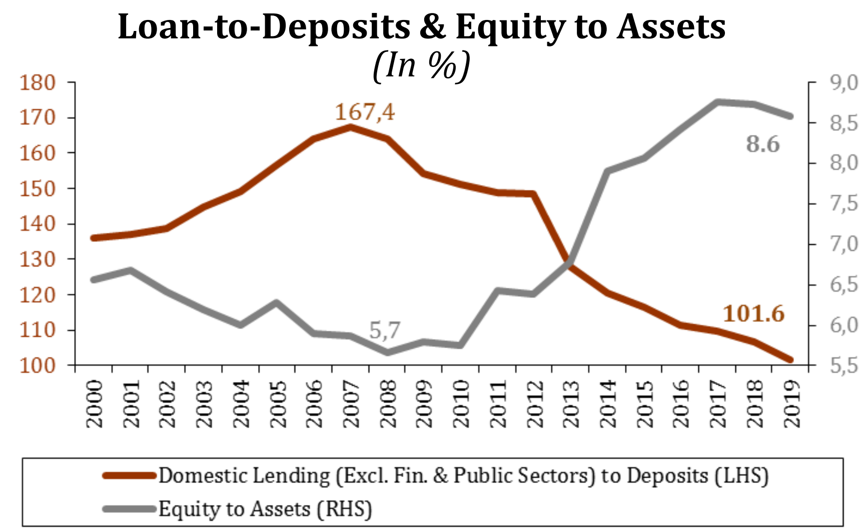
Minimum Wage & Productivity/Minimum Wage
(Euros and ratio)



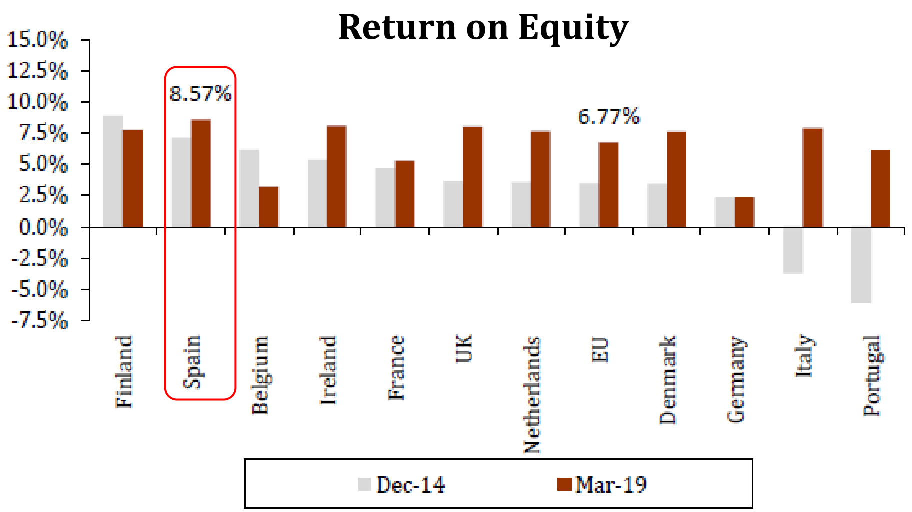
Source: EUROSTAT.

Banking sector adjustment

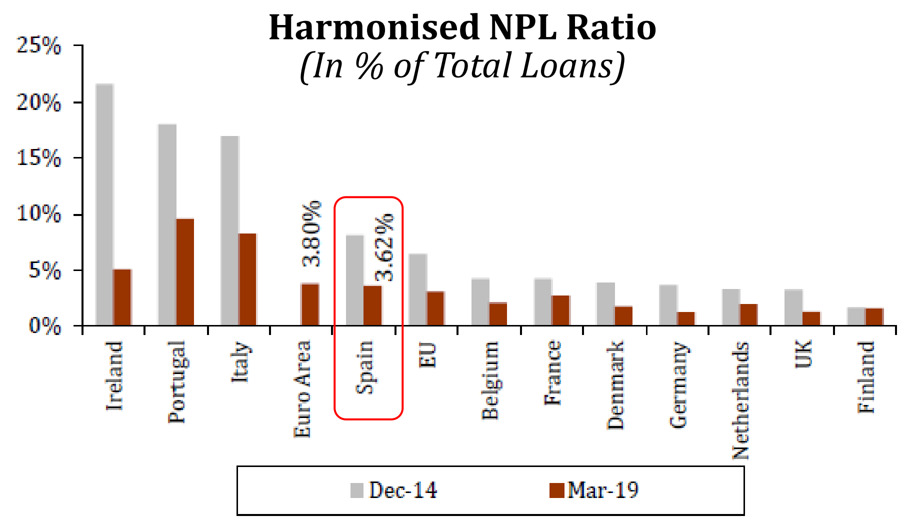
- Adjustment of the banking sector:
  - ❑ Downsizing & loss recognition
  - ❑ Enhanced capitalisation and profitability
- Strong improvement in NPLs: harmonised NPL ratio below Euro Area average
- EBA-2018 stress tests: reduced average impact under adverse scenario for Spanish banks
- Establishment of Macroprudential Authority



Source: Bank of Spain.



Source: EBA. Risk Dashboard Interactive Tool .

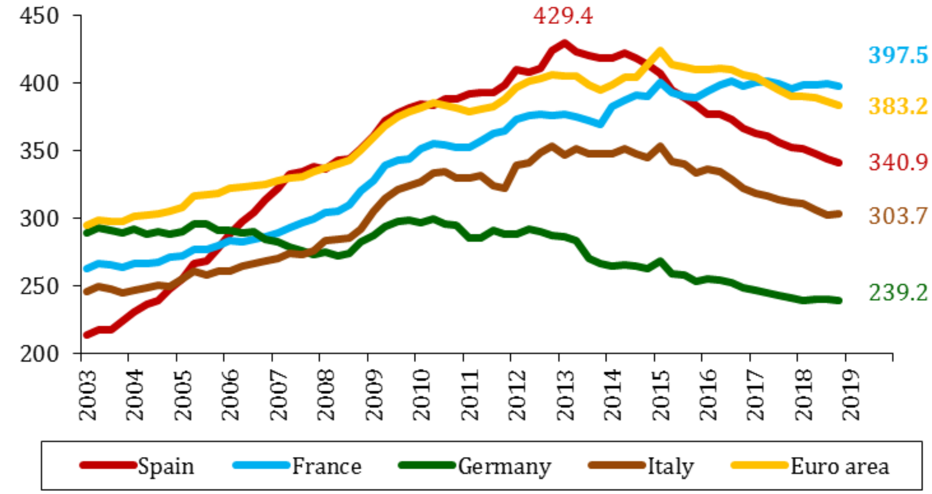


Source: EBA. Risk Dashboard Interactive Tool .

Deleveraging process

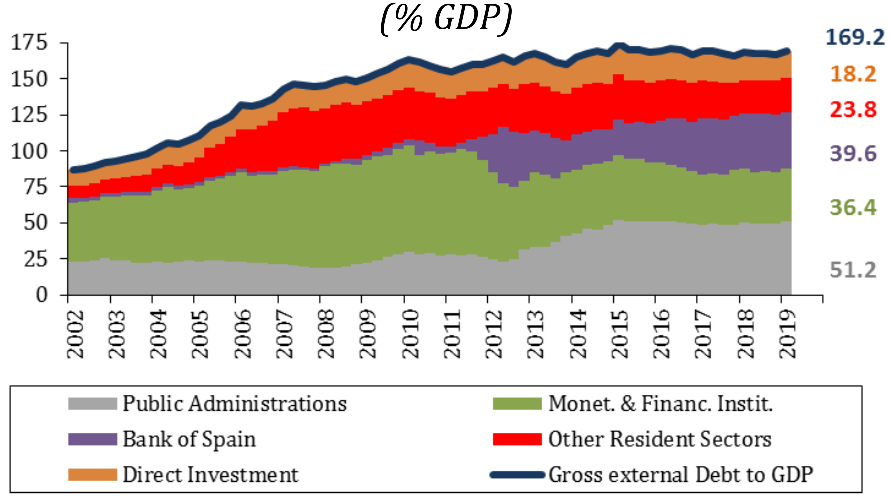
- Total debt has decreased by 88.5pp of GDP, and private sector debt by 65.4pp of GDP
- Households & nonfinancial corporations' leverage now below Euro Area average
- Bank of Spain the only source of added "leverage": a consequence of monetary policy

Total Economy Debt Dynamics
(% of GDP. Non-Consolidated)



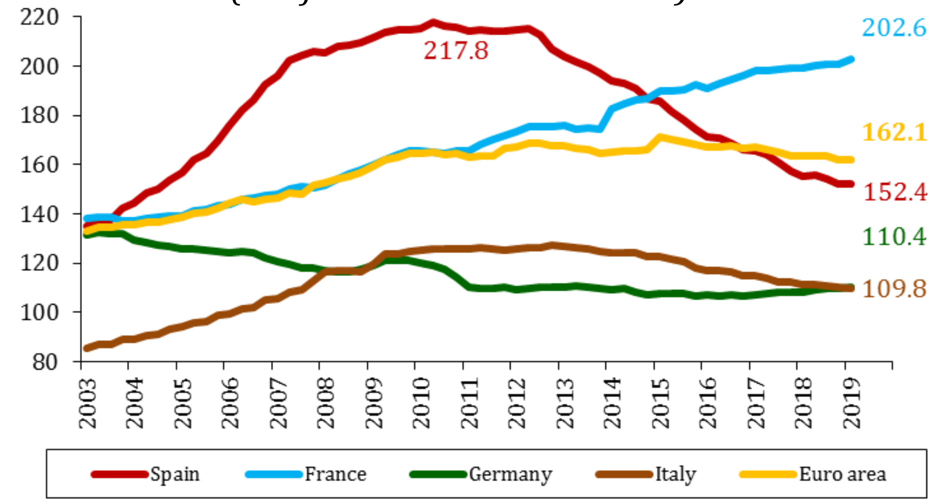
Source: EUROSTAT.

Gross External Debt. By Debtor Sub-Sector
(% GDP)



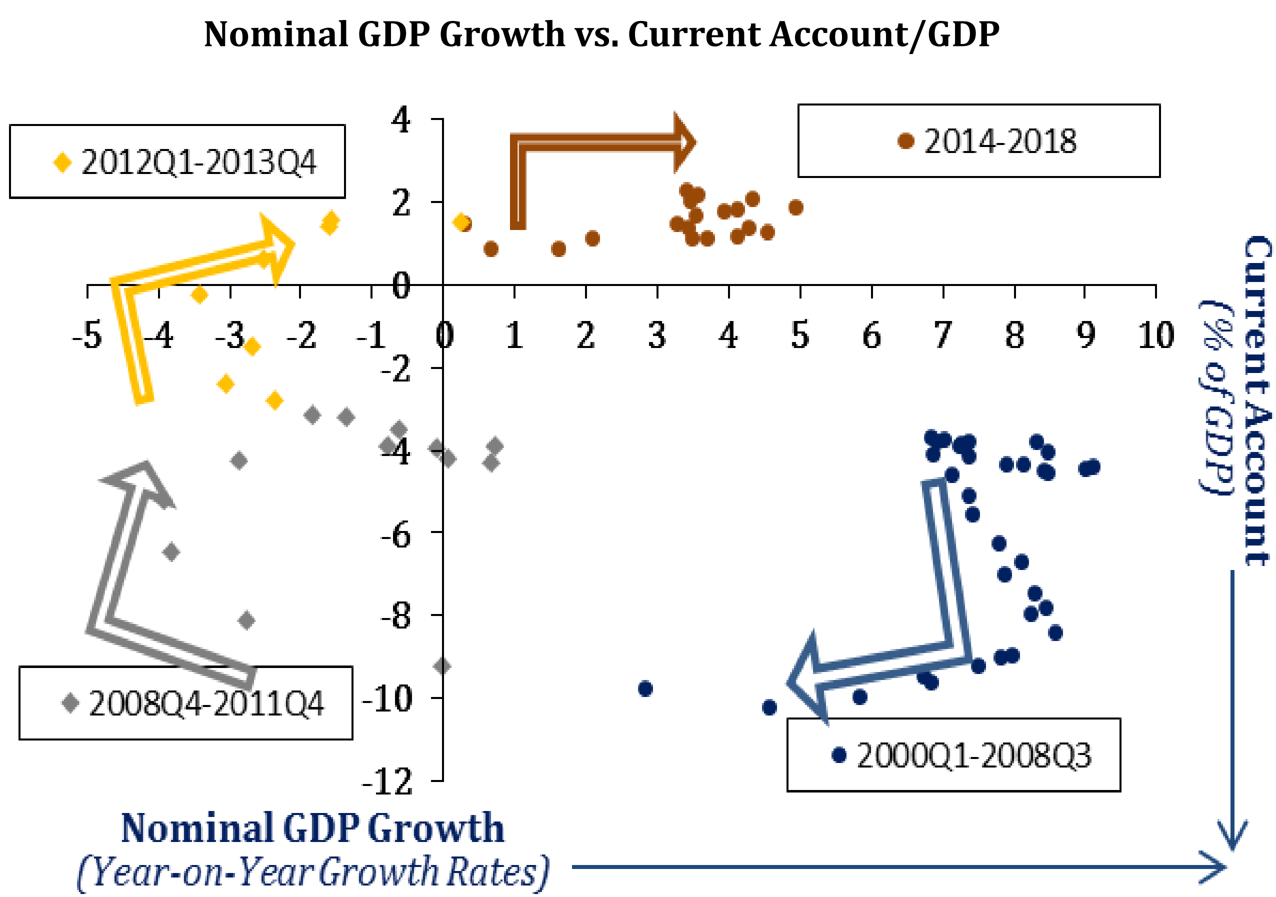
Source: Bank of Spain.
NOTE: The gross external debt position equals total IIP liabilities excluding all equity (equity shares and other equity) and investment fund shares and financial derivatives and employee stock options.

Non-Financial Private Sector Debt Dynamics
(% of GDP. Non-Consolidated)



Sources: EUROSTAT, Bank of Spain and Instituto Nacional de Estadística.

Result: persistent growth with current account surplus



Source: Instituto Nacional de Estadística and Bank of Spain.

Structural Reform: Agenda for Change built around 7 pillars

1. **Education and Human Capital**
   - Improve educational competences and fight against school failure
   - Adjust education to the requirements of the labour market

2. **Ecological Transition**
   - Aimed at reducing greenhouse gas emissions by one third and having renewable energies account for 70% of the electricity system by 2030

3. **Scientific and Technological Advancement**
   - Foster public and private investment in R&D
   - Promote knowledge and innovation in order to boost productivity and competitiveness

4. **Efficient and Fair Labour Market**
   - Reduce the existing duality in the labour market
   - Guarantee the long-term sustainability of the Social Security system

5. **Inequality and Welfare State**
   - Fight against poverty and, more specifically, child poverty
   - Tackle the gender gap

6. **Public Sector Efficiency**
   - Modernize the judicial administration
   - Improve public expenditure efficiency

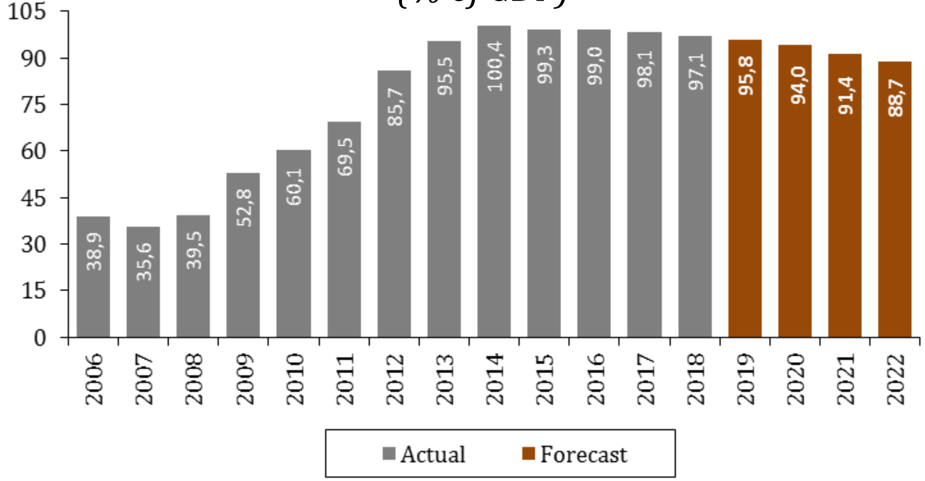
7. **Taxation**
   - Adapt the fiscal system to make it more fair and balanced
   - Adjust it to the new economic activities and to the new sources of income and wealth

Fiscal policy framework: 2019-2022 Stability Programme Update

Net Lending(+)/Borrowing. (% of GDP)								Forecast			
	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022
Central Government	-7,94	-4,84	-3,68	-2,76	-2,65	-1,89	-1,36	-0,5	-0,1	0,0	0,0
Autonomous Regions	-1,87	-1,58	-1,78	-1,73	-0,86	-0,36	-0,23	-0,3	-0,1	0,0	0,0
Local Governments	0,32	0,55	0,53	0,42	0,62	0,61	0,52	0,0	0,0	0,0	0,0
Social Security	-0,98	-1,13	-1,04	-1,21	-1,58	-1,44	-1,41	-1,2	-0,9	-0,4	0,0
General Government	**-10,47**	**-6,99**	**-5,97**	**-5,27**	**-4,47**	**-3,08**	**-2,48**	**-2,0**	**-1,1**	**-0,4**	**0,0**

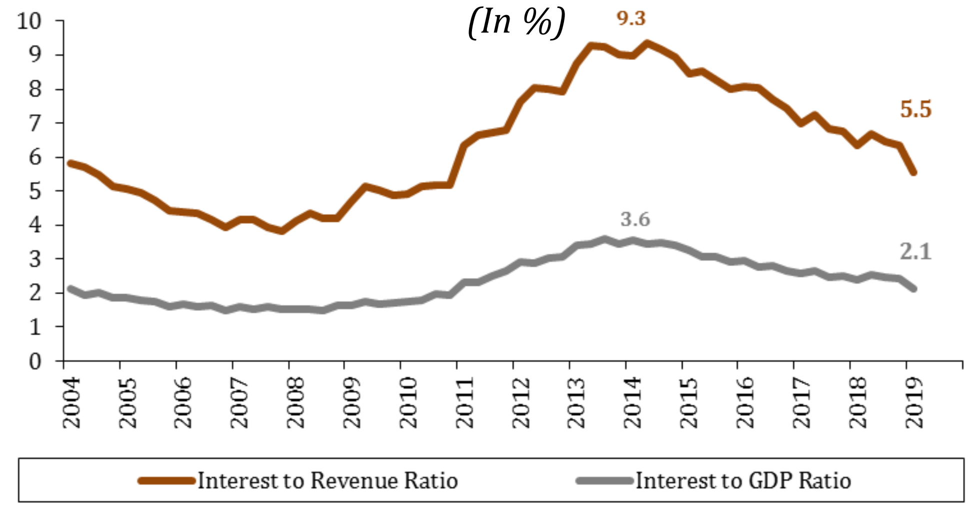
Source: Ministerio de Hacienda.
2019-2022 are the projections contained in the 2019 Stability Programme released in April 2019.

General Government Debt. EDP.
(% of GDP)



Source: Bank of Spain and Ministerio de Economía y Empresa.
2019-2022 are the projections contained in the 2019 Stability Programme released in April 2019.

General Government Interest-to-Revenue and Interest-to-GDP Ratios
(In %)

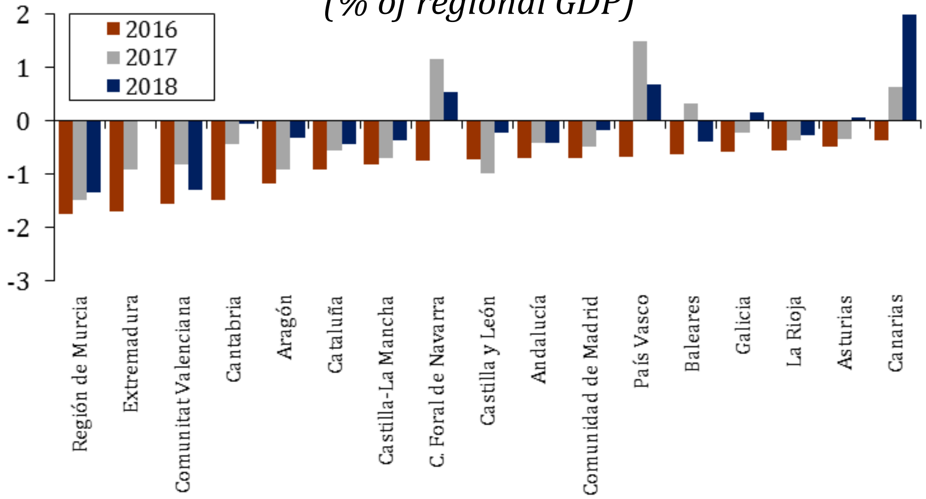


Source: Ministerio de Economía y Empresa.

Fiscal policy framework: Regional Finances

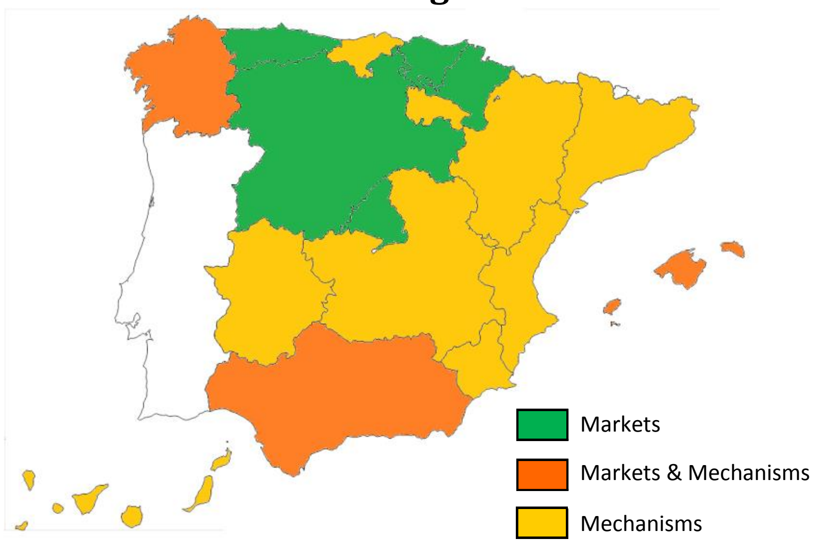
- Continued fiscal consolidation of the regions leading to the gradual and conditional recovery of their financial autonomy
- Several regions already funding themselves fully in the markets
- Backstop mechanisms will be kept in place under certain conditions

Regional Government Net Lending (+)/ Borrowing (-)
(% of regional GDP)



Source: Ministerio de Hacienda.

2019 funding source

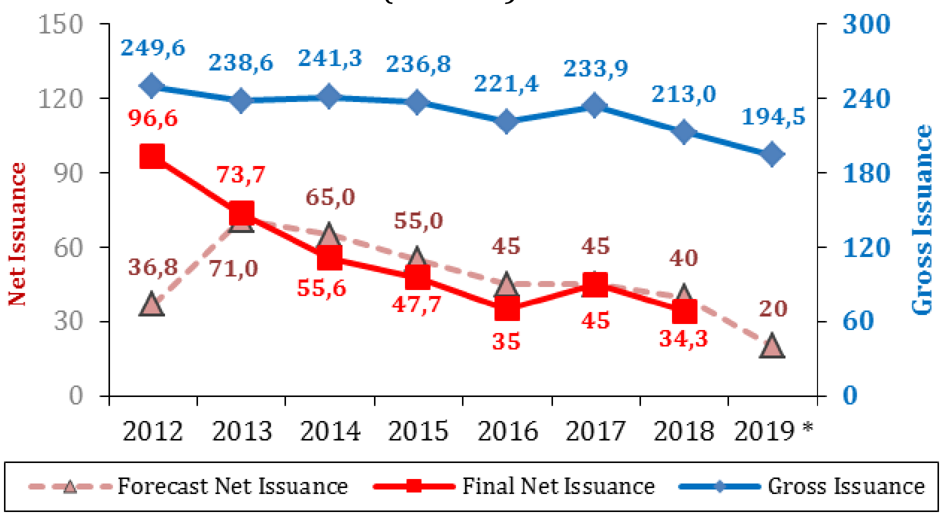


Source: Ministerio de Hacienda.

The Treasury's funding programme in 2019

- The Government's commitment to fiscal consolidation has allowed to review the total net issuance in 2019 down to €20 bn, the lowest since 2007 and 42.9% below the January target
- Total issuance up to September 5th: €141.1 bn, 72.6% of the funding programme
  - Medium- and long-term: €90.9 bn (79.5%), and
  - Short-term (Letras del Tesoro): €50.2 bn (62.7%)

The Treasury's Funding Programmes since 2012
(In € bn)



Source: Secretaría General del Tesoro y Financiación Internacional.

Funding Programme in 2019

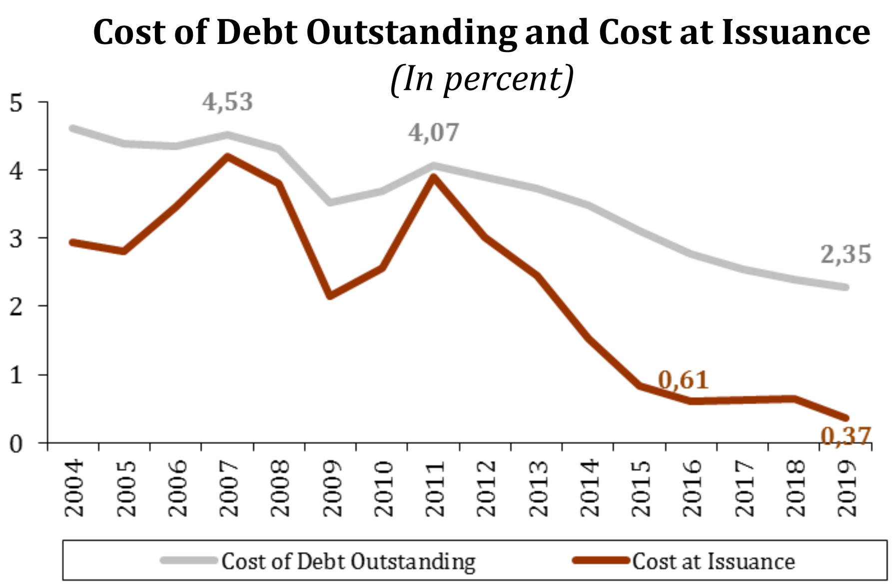
(In billion euros and in effective terms)	End 2018	Forecast 2019
Total Net Issuance	34.277	20.000
Total Gross Issuance	212.964	194.525
Medium- and Long-term		
Gross Issuance [1]	131.979	114.433
Amortisation [1]	89.310	91.933
Net Issuance [1]	42.669	22.500
Letras del Tesoro		
Gross Issuance	80.984	80.092
Amortisation	89.377	82.592
Net Issuance	-8.393	-2.500

[1] Includes Bonos & Obligaciones, debt in other currencies, loans and assumed debts.

Source: Secretaría General del Tesoro y Financiación Internacional.

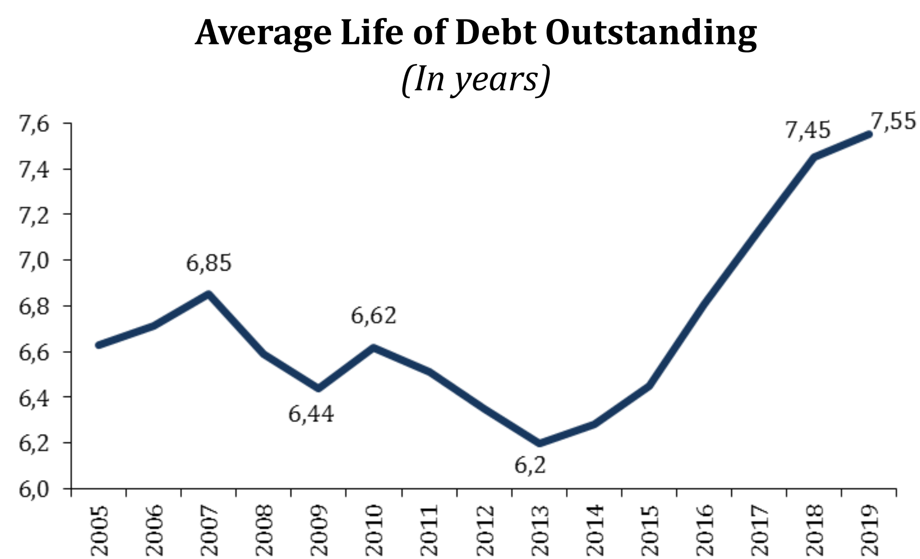
Cost and life of debt: a longer portfolio at historically low rates

- Historic lows in average cost of debt outstanding (2.35%) and cost at issuance (0.37%)
- Since 2013 average life of debt outstanding has increased from 6.20 to 7.55 years



Source: Secretaría General del Tesoro y Financiación Internacional.

*As of 06/09/2019



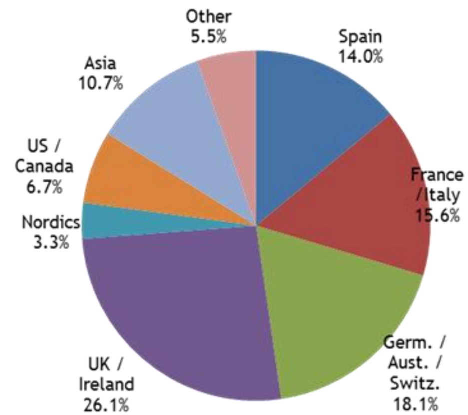
Source: Secretaría General del Tesoro y Financiación Internacional.

Recent trends in investor base

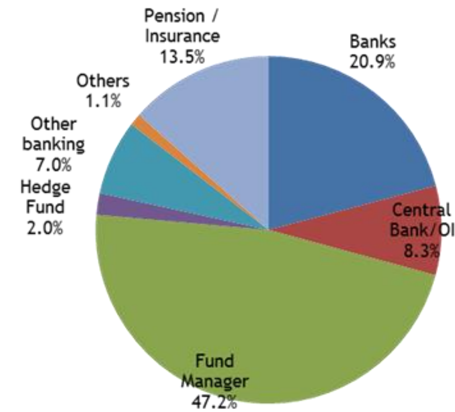
- Bank of Spain PSPP holdings at 21.5%
- Spanish banks have reduced absolute and relative holdings of Spanish bonds, and now represent 15.8% of total holdings
- Non-residents up to 47% of total holdings, with new regions, notably Asia, stepping in

June New 10 Year Reference - Oct. 2029

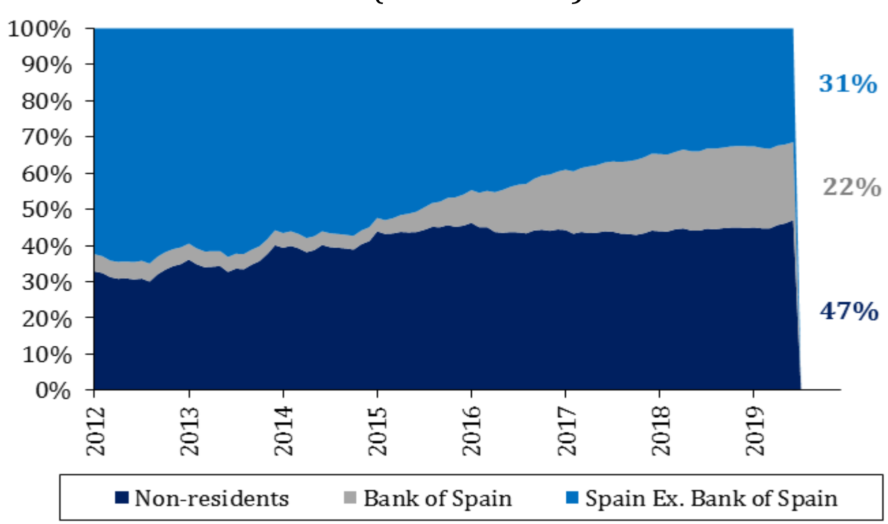
Geographic Distribution *(%)*



By Type of Investor *(%)*

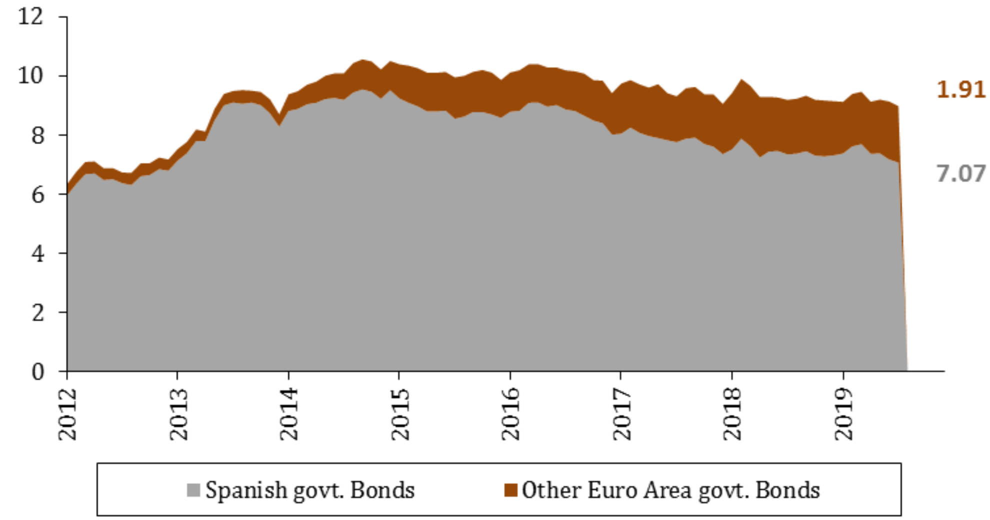


Holdings of Letras & Bonos and Obligaciones del Estado
(% Structure)



Source: Bank of Spain.
(2012-2015 IBERCLEAR data / 2016- Securities Holdings Statistics)

Government bond holdings as % of Spanish bank's balance sheet.

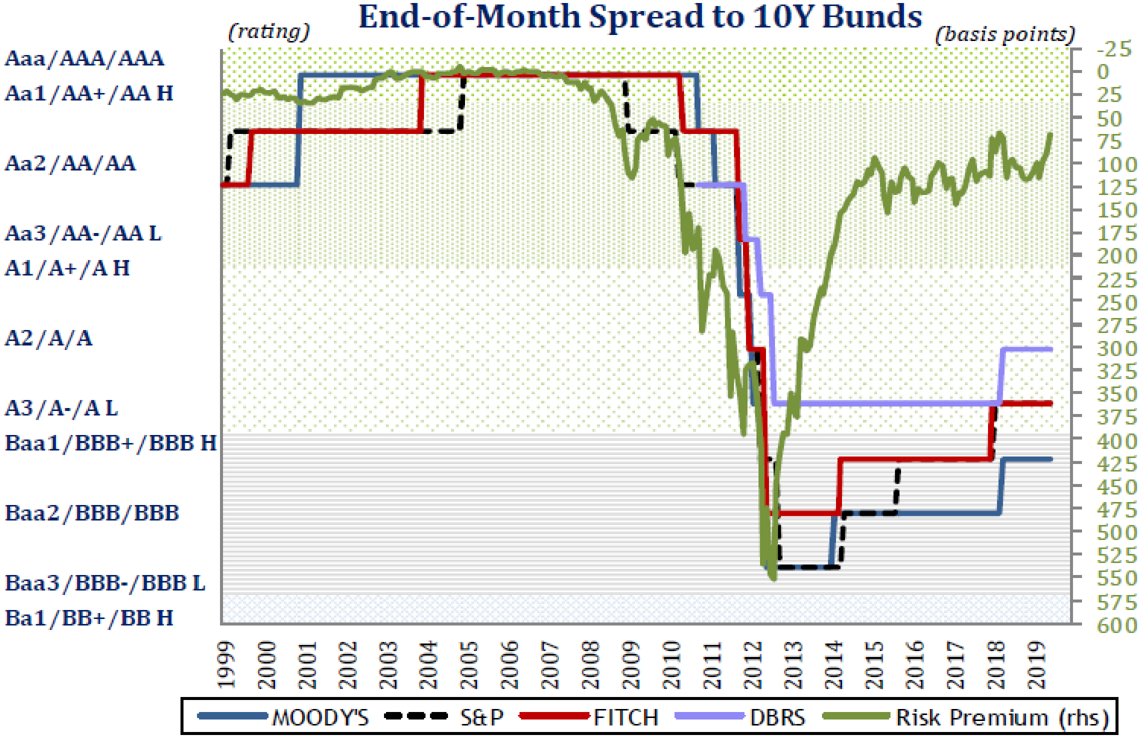


Source: ECB.

Ratings

- Expecting more foreign investors after recent upgrades: A stable outlook (DBRS), A- positive outlook (S&P), A- stable outlook (Fitch), Baa1 stable (Moody's)

Rating and Rating Actions vs. End-of-Month Spread to 10Y Bunds



Source: Ministerio de Economía y Empresa.

Announced Rating Dates in 2019.

	Fitch	S&P	DBRS	Moody's
January	11			
February				
March		22	22	
April				
May				24
June	21			
July				
August				
September		20	20	
October				
November				15
December	13			

Thank you for your attention

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